

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6304

BILL NUMBER: HB 1043

NOTE PREPARED: Nov 23, 2004

BILL AMENDED:

SUBJECT: Small Business Health Insurance Tax Credit.

FIRST AUTHOR: Rep. Koch

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a state tax credit to small employers for qualified employee health insurance expenditures. For taxable years beginning before January 1, 2011, the bill allows an employer to claim the credit if the employer pays at least 50% of the cost for individual or family coverage. For taxable years beginning after December 31, 2010, the bill allows an employer to claim the credit if the employer pays at least: (1) 70% of the cost of individual coverage and 60% of the cost of family coverage, if the employer provided health insurance during at least five previous years; or (2) 50% of the cost for individual or family coverage, if the employer did not provide health insurance during at least five previous years. The bill provides that the credit amount equals the total amount of the qualified expenditures multiplied by a percentage that is based on the number of employees employed by the employer. The bill also requires the Department of State Revenue and the Small Business Development Corporation to develop materials to inform small businesses of the availability of the credit.

Effective Date: January 1, 2006.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to include the credit. The DOR and the Indiana Small Business Development Corporation will incur expenses to develop and disseminate materials to inform Indiana small businesses about the credit. The current resources of these agencies should be sufficient to absorb additional costs associated with the implementation of the credit.

Explanation of State Revenues: The credit proposed in the bill will reduce corporate Adjusted Gross Income Tax and Financial Institutions Tax liabilities of businesses employing at least two and up to 100 workers and

paying (1) at least 50% of the cost of individual or family health insurance coverage for employees through 2010, (2) at least 70% of the cost of individual coverage and 60% of the cost of family coverage after 2010 for employers who have provided health insurance during the five previous years, and (3) 50% of the cost of individual and family coverage after 2010 for employers who have not provided health insurance during the previous five years. The credit amount varies by employment size of the firm. The credit can be taken each year. Unused credit may be carried forward to subsequent tax years. The credit is nonrefundable. A portion of the revenue loss should be offset by increased revenue from the Insurance Premium Tax resulting from additional health insurance coverage in the state as a result of the credit. The net revenue loss due to this bill is approximately \$236.0 M in the first taxable year that the credit is available. The carryforward in the first taxable year that the credit is offered is approximately \$2.1 B.

Corporate Adjusted Gross Income Tax: The bill establishes a tax credit for employers that pay at least 50% of their employees' health insurance costs. The credit schedule is shown in the following table. For businesses that pay 100% of the health insurance expenditure for its employees, the credit is increased by 5%.

Number of Employees	Credit Amount: Percent of the Employer's Health Insurance Expenditures for the Taxable Year
2 to 25	50%
26 to 35	40%
36 to 50	30%
51 to 75	20%
76 to 100	10%

The fiscal impact of the bill is a function of: (1) the number of employers paying at least 50% of their employees' health insurance cost; (2) the number of employers currently not paying 50% of their employees' health insurance cost that increase the employer's share to at least 50% and take the credit; and (3) the number of firms currently not offering health insurance to their employees that begin offering it, pay at least 50% of the cost of coverage, and take the credit.

Recent survey results suggest that approximately 55,450 Indiana businesses with 2 to 100 employees pay at least 50% of the cost of health insurance (12,050 businesses pay 100% of the cost, and 43,400 pay at least 50% but less than 100% of the cost). According to a recent survey, the employer's share of the average annual premium cost for covered workers is \$2,875 for single workers and \$6,656 for family coverage. For firms currently paying at least 50% of health insurance costs, the average credit amount would range from \$26,000 per year to \$58,000 per year depending on the firm size and the percentage of coverage paid. The credit would result in an annual decrease in corporate Adjusted Gross Income Tax totaling approximately \$215.0 M with a carryforward of \$1.9 B for the first taxable year that the credit is offered. These estimates (and the estimates below) assume that only a certain percent of businesses have tax liability high enough to take the full credit in the first year based on the lower bound of the average credit amount.

The credit is expected to induce some firms that currently offer health insurance but pay less than 50% of the cost of coverage to increase coverage to at least 50% and take the credit. Recent survey results suggest that approximately 25,000 Indiana businesses with 2 to 100 employees pay less than 50% of the cost of insurance

coverage. Assuming that 10% of firms in this category would increase the employer contribution to cover at least 50% of the costs of health insurance, the annual decrease in corporate Adjusted Gross Income Tax would total approximately \$9.4 M with a carryforward of \$63.0 M in the first taxable year that the credit is offered.

The credit is also expected to induce some firms that do not currently offer health insurance to offer coverage and take the credit. Information from a recent survey suggests that approximately 43,200 Indiana businesses with 2 to 100 employees do not offer health insurance. Assuming that 10% of firms in this category choose to offer health insurance and take the credit, the annual decrease in corporate Adjusted Gross Income Tax would total approximately \$16.3 M with a carryforward of \$109.4 M in the first taxable year that the credit is offered.

If the credit induces businesses that do not offer health insurance to offer it, and employees use pretax dollars to pay for their share of the insurance premium, individual Adjusted Gross Income Tax revenues will also decrease.

Revenue from the corporate AGI tax and the Financial Institutions Tax is deposited in the state General Fund. A portion of the corporate AGI is deposited in the Property Tax Replacement Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Insurance Premium Tax: The credit is likely to cause businesses not currently offering a health benefit plan to offer a plan. Recent survey results suggest that approximately 43,200 businesses with 2 to 100 employees did not offer a health benefit plan in 2004. If 10% of these businesses begin offering health insurance in response to the credit, Insurance Premium Tax liability will increase by approximately \$2.4 M in FY 2006 and \$4.7 M in FY 2007 (due to the effective date of the credit). According to a recent survey, 12.3% of covered employees enroll in HMO plans, which do not pay the Insurance Premiums Tax. This is accounted for in these estimates.

The Insurance Premium tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill would decrease local option income tax liabilities (CAGIT, COIT, CEDIT) for employees who gain access to health insurance as a result of the credit and pay their insurance premium with pretax dollars. The magnitude of the decrease is indeterminable.

State Agencies Affected: Department of State Revenue, Indiana Small Business Development Corporation.

Local Agencies Affected:

Information Sources: Kaiser Family Foundation, Employer Health Benefits 2003 Annual Survey, available at <http://www.kff.org/insurance/ehbs2003-5-set.cfm>; and State Health Facts Online available at <http://www.statehealthfacts.kff.org/>; U.S. Bureau of the Census, County Business Patterns, OFMA Corporate Income Tax database.

Fiscal Analyst: Jim Landers, 317-232-9869.